



General Assembly

January Session, 2001

**Committee Bill No. 790**

LCO No. 4267

Referred to Committee on Planning and Development

Introduced by:  
(PD )

**AN ACT EXEMPTING MILITARY RETIREMENT INCOME FROM THE  
INCOME TAX.**

Be it enacted by the Senate and House of Representatives in General  
Assembly convened:

1       Section 1. Subdivision (20) of section 12-701 of the general statutes is  
2       repealed and the following is substituted in lieu thereof:

3       (20) "Connecticut adjusted gross income" means adjusted gross  
4       income, with the following modifications:

5       (A) There shall be added thereto (i) to the extent not properly  
6       includable in gross income for federal income tax purposes, any  
7       interest income from obligations issued by or on behalf of any state,  
8       political subdivision thereof, or public instrumentality, state or local  
9       authority, district or similar public entity, exclusive of such income  
10      from obligations issued by or on behalf of the state of Connecticut, any  
11      political subdivision thereof, or public instrumentality, state or local  
12      authority, district or similar public entity created under the laws of the  
13      state of Connecticut and exclusive of any such income with respect to  
14      which taxation by any state is prohibited by federal law, (ii) any

15 exempt-interest dividends, as defined in Section 852(b)(5) of the  
16 Internal Revenue Code, exclusive of such exempt-interest dividends  
17 derived from obligations issued by or on behalf of the state of  
18 Connecticut, any political subdivision thereof, or public  
19 instrumentality, state or local authority, district or similar public entity  
20 created under the laws of the state of Connecticut and exclusive of  
21 such exempt-interest dividends derived from obligations, the income  
22 with respect to which taxation by any state is prohibited by federal  
23 law, (iii) any interest or dividend income on obligations or securities of  
24 any authority, commission or instrumentality of the United States  
25 which federal law exempts from federal income tax but does not  
26 exempt from state income taxes, (iv) to the extent included in gross  
27 income for federal income tax purposes for the taxable year, the total  
28 taxable amount of a lump sum distribution for the taxable year  
29 deductible from such gross income in calculating federal adjusted  
30 gross income, (v) to the extent properly includable in determining the  
31 net gain or loss from the sale or other disposition of capital assets for  
32 federal income tax purposes, any loss from the sale or exchange of  
33 obligations issued by or on behalf of the state of Connecticut, any  
34 political subdivision thereof, or public instrumentality, state or local  
35 authority, district or similar public entity created under the laws of the  
36 state of Connecticut, in the income year such loss was recognized, (vi)  
37 to the extent deductible in determining federal adjusted gross income,  
38 any income taxes imposed by this state, (vii) to the extent deductible in  
39 determining federal adjusted gross income, any interest on  
40 indebtedness incurred or continued to purchase or carry obligations or  
41 securities the interest on which is exempt from tax under this chapter  
42 and (viii) expenses paid or incurred during the taxable year for the  
43 production or collection of income which is exempt from taxation  
44 under this chapter or the management, conservation or maintenance of  
45 property held for the production of such income, and the amortizable  
46 bond premium for the taxable year on any bond the interest on which  
47 is exempt from tax under this chapter to the extent that such expenses  
48 and premiums are deductible in determining federal adjusted gross

49 income.

50 (B) There shall be subtracted therefrom (i) to the extent properly  
51 includable in gross income for federal income tax purposes, any  
52 income with respect to which taxation by any state is prohibited by  
53 federal law, (ii) to the extent allowable under section 12-718, exempt  
54 dividends paid by a regulated investment company, (iii) the amount of  
55 any refund or credit for overpayment of income taxes imposed by this  
56 state, or any other state of the United States or a political subdivision  
57 thereof, or the District of Columbia, to the extent properly includable  
58 in gross income for federal income tax purposes, (iv) to the extent  
59 properly includable in gross income for federal income tax purposes,  
60 any tier 1 railroad retirement benefits, (v) with respect to any natural  
61 person who is a shareholder of an S corporation which is carrying on,  
62 or which has the right to carry on, business in this state, as said term is  
63 used in section 12-214, the amount of such shareholder's pro rata share  
64 of such corporation's nonseparately computed items, as defined in  
65 Section 1366 of the Internal Revenue Code, that is subject to tax under  
66 chapter 208, in accordance with subsection (c) of section 12-217,  
67 multiplied by such corporation's apportionment fraction, if any, as  
68 determined in accordance with section 12-218, (vi) to the extent  
69 properly includable in gross income for federal income tax purposes,  
70 any interest income from obligations issued by or on behalf of the state  
71 of Connecticut, any political subdivision thereof, or public  
72 instrumentality, state or local authority, district or similar public entity  
73 created under the laws of the state of Connecticut, (vii) to the extent  
74 properly includable in determining the net gain or loss from the sale or  
75 other disposition of capital assets for federal income tax purposes, any  
76 gain from the sale or exchange of obligations issued by or on behalf of  
77 the state of Connecticut, any political subdivision thereof, or public  
78 instrumentality, state or local authority, district or similar public entity  
79 created under the laws of the state of Connecticut, in the income year  
80 such gain was recognized, (viii) any interest on indebtedness incurred  
81 or continued to purchase or carry obligations or securities the interest  
82 on which is subject to tax under this chapter but exempt from federal

83 income tax, to the extent that such interest on indebtedness is not  
84 deductible in determining federal adjusted gross income and is  
85 attributable to a trade or business carried on by such individual, (ix)  
86 ordinary and necessary expenses paid or incurred during the taxable  
87 year for the production or collection of income which is subject to  
88 taxation under this chapter but exempt from federal income tax, or the  
89 management, conservation or maintenance of property held for the  
90 production of such income, and the amortizable bond premium for the  
91 taxable year on any bond the interest on which is subject to tax under  
92 this chapter but exempt from federal income tax, to the extent that  
93 such expenses and premiums are not deductible in determining federal  
94 adjusted gross income and are attributable to a trade or business  
95 carried on by such individual, (x) (I) for a person who files a return  
96 under the federal income tax as an unmarried individual whose  
97 federal adjusted gross income for such taxable year is less than fifty  
98 thousand dollars, or as a married individual filing separately whose  
99 federal adjusted gross income for such taxable year is less than fifty  
100 thousand dollars, or for a husband and wife who file a return under  
101 the federal income tax as married individuals filing jointly whose  
102 federal adjusted gross income for such taxable year is less than sixty  
103 thousand dollars or a person who files a return under the federal  
104 income tax as a head of household whose federal adjusted gross  
105 income for such taxable year is less than sixty thousand dollars, an  
106 amount equal to the Social Security benefits includable for federal  
107 income tax purposes; and (II) for a person who files a return under the  
108 federal income tax as an unmarried individual whose federal adjusted  
109 gross income for such taxable year is fifty thousand dollars or more, or  
110 as a married individual filing separately whose federal adjusted gross  
111 income for such taxable year is fifty thousand dollars or more, or for a  
112 husband and wife who file a return under the federal income tax as  
113 married individuals filing jointly whose federal adjusted gross income  
114 from such taxable year is sixty thousand dollars or more or for a  
115 person who files a return under the federal income tax as a head of  
116 household whose federal adjusted gross income for such taxable year

117 is sixty thousand dollars or more, an amount equal to the difference  
118 between the amount of Social Security benefits includable for federal  
119 income tax purposes and the lesser of twenty-five per cent of the Social  
120 Security benefits received during the taxable year, or twenty-five per  
121 cent of the excess described in Section 86(b)(1) of the Internal Revenue  
122 Code, (xi) to the extent properly includable in gross income for federal  
123 income tax purposes, any amount rebated to a taxpayer pursuant to  
124 section 12-746, (xii) to the extent properly includable in the gross  
125 income for federal income tax purposes of a designated beneficiary,  
126 any distribution to such beneficiary from any qualified state tuition  
127 program, as defined in Section 529(b) of the Internal Revenue Code,  
128 established and maintained by this state or any official, agency or  
129 instrumentality of the state, (xiii) to the extent properly includable in  
130 gross income for federal income tax purposes, the amount of any  
131 Holocaust victims' settlement payment received in the taxable year by  
132 a Holocaust victim, and (xiv) to the extent properly includable in gross  
133 income for federal income tax purposes of an account holder, as  
134 defined in section 31-51ww, interest earned on funds deposited in the  
135 individual development account, as defined in section 31-51ww, of  
136 such account holder.

137 (C) With respect to a person who is the beneficiary of a trust or  
138 estate, there shall be added or subtracted, as the case may be, from  
139 adjusted gross income such person's share, as determined under  
140 section 12-714, in the Connecticut fiduciary adjustment.

141 (D) There shall be subtracted from such adjusted gross income  
142 retirement income paid by the Army, Navy, Marine Corps, Coast  
143 Guard or Air Force of the United States.

144 Sec. 2. This act shall take effect July 1, 2001, and be applicable to  
145 taxable years commencing January 1, 2001.

***Statement of Purpose:***

To exempt the income of military retirees from the income tax.

*[Proposed deletions are enclosed in brackets. Proposed additions are indicated by underline, except that when the entire text of a bill or resolution or a section of a bill or resolution is new, it is not underlined.]*

Co-Sponsors: SEN. DAILY, 33rd Dist.; REP. DAVIS, 50th Dist.